



April 14, 2010

Kevin Shannon, Vice Chairman
Robert Gilley, Executive Vice President
Randy Getz, Executive Vice President
CB Richard Ellis, Inc.

**Via: Email and
Overnight Delivery**

Re: Letter of Intent for Purchase of the Golden State Portfolio

Dear Messrs Shannon, Gilley and Getz:

On behalf of the Tides Foundation, CityView, AE Capital Advisers and GreenSpace Developments (together '**Erudio Partners**'), we are pleased to submit our Letter of Intent to purchase a selection of properties within the Golden State Portfolio (the '**Portfolio**'). We believe our indicative offer presents a compelling proposition for your client, which would maximize the economic value for the State of California (the '**State**' or the '**Seller**'), preserve existing operating structures and current employment and allow the properties to be retained for the long-term benefit of the public.

We believe that the composition of Erudio Partners and our expertise in the property and social infrastructure sectors uniquely qualifies us to complete the transaction expeditiously and in a manner that delivers attractive value to the State from economic, social and public policy perspectives.

1. Our Proposal

We invite you to consider our indicative proposals related to three subject properties (the '**Subject Properties**') within the Portfolio as below. We have capital identified for these Subject Properties and would be eager to progress the transaction in line with the timeline identified by the State in its offering documentation:

- A. CAL EMA Building - Indicative Purchase Price of \$41.6 million.
- B. Department of Justice Building - Indicative Purchase Price of \$69.4 million.
- C. San Francisco Civic Center – Indicative Purchase Price of \$311.7 million.

Should Erudio Partners and the State reach a satisfactory agreement regarding the Subject Properties (individually or in any mutually agreed upon combination), Erudio Partners would be pleased to work with the State in considering the application of our innovative structure to other

and possibly all of the properties in the Portfolio. The purchases could be funded by accessing additional sources of institutional capital with which we have pre-existing relationships.

We would like to emphasize the key aspects of our proposal below, which we believe provides a comprehensive and “Beyond Capital” solution to the needs of the State:

- **Realization of the full economic value of the properties.** We believe our indicative offer for the Golden State Portfolio is at a highly attractive valuation, thereby maximizing the immediate cash proceeds realized by the State from this transaction.
- **Preservation of the existing operating and employment arrangements.** We intend to retain the existing employee base for the operations and property management of the Subject Properties to the maximum extent possible, thereby preserving jobs and ensuring continuity in the management and operations of these important public assets.
- **Permanent public benefit for the citizens of the State of California.** Our investment structure has been designed to preserve the continued public benefit of these essential public assets. Erudio Partners will fund a public benefit entity that will purchase the Subject Properties and own the assets subject to a trust agreement (the ‘**Trust**’) that will be established for the benefit of current and future residents of California. The Tides Foundation will manage the properties, with the Trust applying the residual value and certain ongoing cash flows from the Subject Properties for the benefit of the public. The Trust’s proceeds will be used to support California education and provide academic scholarships entirely within the State of California.

Our indicative proposal is based on the offering memoranda dated 3 March 2010 and certain supplemental information, including draft leases, provided to us by CBRE (together, the ‘**Offering Memorandum**’) as well as other publicly available information. The principal assumptions upon which the indicative proposals are based include, but are not limited to, the following:

- a. transaction closes on or before 30 June 2010;
- b. the State has good and marketable title to the Subject Properties, free and clear of all monetary liens, debt obligations, liabilities, security interests or other encumbrances on the closing date;
- c. Erudio Partners and the State can reach satisfactory sale and purchase agreements, lease agreements and other relevant agreements related to the Subject Properties (together, the ‘**Purchase and Lease Documents**’);
- d. the operating, financial and capital reserve projections provided for each of the Subject Properties in the Offering Memorandum are substantiated in due diligence;
- e. the Subject Properties are in good working condition, have all the requisite permitting, zoning, regulatory and governmental approvals and are free from environmental liabilities;
- f. the Subject Properties are able to be covered by appropriate insurance;

- g. the due diligence process confirms that the information contained in the Offering Memorandum and subsequent information provided to Erudio Partners is accurate and complete and that the Subject Properties are not exposed to any material liabilities or deferred maintenance, other than as described in full in the Offering Memorandum;
- h. the Subject Properties continue to be operated in the ordinary course and there has been no material changes in the current operations and condition of the Subject Properties against that outlined in the Offering Memorandum;
- i. there are no material contingent or other liabilities or claims including litigation, regulatory and environmental claims related to the Subject Properties;
- j. the State will bear its own transaction costs (including taxes, fees, bonuses or other payments made or required to be made in connection with the sale of the Subject Properties); and
- k. there are no material regulatory or governmental impediments that would restrict Erudio Partners from potentially acquiring some or all of the Subject Properties.

Key areas of uncertainty that may affect our valuation are likely to include:

- (i) the final terms of the Purchase and Lease Documents;
- (ii) operating and property level expenses;
- (iii) financing rates and conditions;
- (iv) insurance arrangements in respect of the properties;
- (v) appropriateness of other financial projections;
- (vi) the taxation position of the properties; and
- (vii) understanding of any transition issues.

2. Qualifications

Importantly, several of the members of Erudio Partners are based in California and all of the members have direct investments and transaction experience within the State. The qualifications of the members of Erudio Partners at attached as Appendix I hereto.

3. Due Diligence

In order to progress our offer we will need to conduct formal due diligence customary for property acquisitions of this type including as appropriate commercial, legal, accounting, property, tax, insurance and environmental due diligence.

The Seller shall cooperate with Erudio Partners and shall give Erudio Partners and its agents, attorneys, and consultants full access to all files, agreements, leases and all other documents, reports and materials relating to the ownership, operation, development, management and sale of the property. The Seller shall permit Erudio Partners, its engineers, consultants contractors and agents to conduct such feasibility studies, investigations, physical and other inspections, studies and other investigations of the properties as Erudio Partners deems appropriate, including

without limitation environmental and engineering studies, appraisals and physical inspections of the properties and all existing improvements and systems thereon.

We would structure our due diligence process to benefit from any vendor due diligence provided. We expect that the State will warrant the factual accuracy of any information provided in respect of the due diligence process.

4. Confidentiality

Erudio Partners considers the unique structure and proposal to the State, contained in the body of this Letter of Intent, to be proprietary and critical to our success. Thus, it is requested that no part of this letter or its contents may be disclosed to any other prospective buyer of the Golden State Portfolio (or any part thereof) without first discussing with us the nature of the disclosure. We understand that this document is part of a public process and as such, we are willing to discuss and define any disclosures that have to be made by the State to the public to ensure transparency and our continued participation in the process in a manner that protects the unique aspects of our bid.

5. Non-Binding and No Legal Effect

Nothing in this letter creates any obligation on Erudio Partners, nor its members individually, to purchase an interest in any of the Subject Properties or the Portfolio, nor to complete any transaction with the Seller.

6. Contact

If the Seller or CBRE should have any questions in relation to this indicative proposal, they may be addressed to one of the following.

Victor Miramontes
Vice Chairman
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We would like to re-iterate our enthusiasm for this transaction and thank you for the opportunity to submit this Indicative Offer. We have all of the necessary resources (including external advisers which we will identify to the State) ready to move quickly and the practical experience necessary to complete the transaction on a tight timetable.

The composition of our consortium and our expertise in the property and social infrastructure sectors uniquely qualifies us to complete the transaction expeditiously and in a manner that delivers the most attractive value proposition to the State from financial, social and public policy perspectives.

Our proposal is unique in its focus that the subject assets remain public, the existing relationships be preserved and that the highest price payable to the State is achieved. While it is understood that the State of California must do all that it can to meet its current budgetary objectives, it is also possible for the State to select a solution that allows the citizens of California to continue to enjoy the benefit of these assets regardless of the State's ownership. We are confident that our proposal maximizes the States' objectives both from a fiscal and a policy perspective.

We look forward to working with CBRE and the State towards the successful completion of this transaction. We would be pleased to discuss our proposal with you in further detail and look forward to hearing from you shortly.

Very truly yours,

Erudio Partners

A stylized blue ink signature, likely belonging to Victor Miramontes, consisting of a large, fluid 'V' followed by a horizontal line.

Victor Miramontes
Vice Chairman
CityView

A cursive blue ink signature, likely belonging to Thomas Majewski, written in a fluid, connected script.

Thomas Majewski
Partner
AE Capital Advisers

A cursive blue ink signature, likely belonging to Diego Recalde, written in a fluid, connected script.

Diego Recalde
Partner
GreenSpace Developments

Appendix I: Consortium Qualifications

CityView

CityView is one of the nation's premier institutional investment firms focused on urban real estate, in-city housing, and metropolitan infrastructure. Founded in 2000 by Henry Cisneros, former Secretary of the U.S. Department of Housing and Urban Development and Victor Miramontes, CityView has generated more than \$2 billion in urban investment in 45 communities across the United States. The company currently manages multiple funds, all focused on urban solutions on behalf of institutional investors and pension systems. CityView's three funds have invested in more than 20 metropolitan areas in 13 states across the country.

CityView works with institutional investors to meet their needs for diversified investment portfolios, offering specialized expertise and capabilities in urban investments. The firm has developed superior capacities in investment operations and fund management in order to serve the unique requirements of large institutional investors concerning fiduciary standards, return expectations, capital structure, risk mitigation, and compliance frameworks.

CityView is staffed to bring focused attention to creating effective project capital structures, including those addressing private and public projects especially as local governments' budgetary limits are exceeded. A unique dimension of CityView's success is its "Beyond Capital" strategy, which emphasizes creative public and private partnerships.

A key to CityView's business strategy is recognition that the United States is a metropolitan nation. Seventy-five percent of the nation's GDP is generated in just the largest 100 metropolitan areas. CityView's concentration in urban investing means that the firm is well-positioned to generate strong financial returns from the economic, demographic, cultural and environmental trends which are increasing city populations, recycling older urban properties, expanding large urban institutions, and enhancing the role of metropolitan job centers in the nation's economy. The challenge of responding to the building needs of urban America is the mission – *Smart capital for Smart growth* – to which CityView dedicates its skills to the benefit of our institutional partners and in the interests of the nation.

Tides Foundation

The Tides Foundation is based in San Francisco, California. Tides was founded in 1976 by Drummond Pike, a renowned philanthropist and foundation professional recognized with distinguished honors by his peers for many decades. Tides mission is to partner with philanthropists, foundations, activists, and organizations across the country and across the globe to promote economic justice, robust democratic processes, and the opportunity to live in a healthy and sustainable environment where human rights are preserved and protected.

Since its founding, Tides has been involved in managed project and grant-making activity exceeding \$1 billion, including developing and managing many real estate projects.

Tides has an umbrella of organizations that pursues a distinct yet related strategy to promote the Tides mission. Tides Foundation works with donors to increase and organize resources for directed philanthropic giving. At the behest of its donors and its board, the Tides program staff has reviewed a large number of non-profits and has directly granted funds to tens of thousands of nonprofit organizations across the country and across the globe. Tides Center is sponsor to nearly 200 projects nationwide. Tides Shared Spaces operates and supports green nonprofit centers. Its staff has managed a clearinghouse of over 150 real estate projects nationwide.

Tides is a 501(c)(3) nonprofit organization, legally and financially responsible for all Tides projects and activities. The Tides Foundation has over 100 employees.

Tides offers an array of services to simplify and amplify donor efforts. From donor advised funds to fiscal sponsorship, from green nonprofit centers to programmatic consulting, from grants management to risk management and more, Tides gives donors the freedom to focus on the change donors want to see. Tides can profile a donor's core intent and will endeavor to find successful programs, nonprofits and systemic solutions to meet the donor's philanthropic goals.

AE Capital Advisers

AE Capital Advisers is an independent investment management firm that has been providing investment advice to institutional investors and governments since 1996. The firm has approximately \$9 billion of assets under its advice, including over \$4 billion of real estate and infrastructure assets globally, ranking the firm one of the world's largest independent infrastructure investment management firms. AE Capital Advisers has over \$750 million of committed capital available for infrastructure investments.

The firm currently has over 80 staff located in Sydney, London, New York (Stamford), Canberra and Melbourne.

The firm has significant investments in a number of companies operating in California, including investments in seaports at several California locations as well as ownership of Smarte Carte, the provider of baggage carts at most California airports. Through ownership of Spirit Real Estate, the firm has a number of landholdings (net leases) in California as well.

Beyond real estate and infrastructure investments, AE Capital Advisers also manages investments in private equity, natural resources and unlisted credit. Today, the firm remains employee-owned, and is independent of any bank or broker dealer

AE Capital Advisers traces its roots to 1988, when it was founded by Dr. David Chessell, who serves today the firm's Chairman. Dr. Chessell served as a senior economist from the Australian Treasury and was instrumental in formulating government policy regarding the use of private capital in the financing of essential government real estate and infrastructure. Those policies focused on the appropriate balance between domestic and foreign capital and between public and private investment. Those policies set the foundations for today's robust privatization market in Australia and have been emulated successfully by many other countries. Backgrounds of other firm partners include experience at the International Monetary Fund, large financial institutions, engineering practices and law firms.

The firm initially provided the private sector with economic analysis and policy advice of the depth and quality typically prepared only for Government Ministers. In 1996, one of the firm's private sector clients invited the firm to provide investment advice to its pension fund. Infrastructure investments, cutting edge at the time, were some of the earliest investments made for that client. That pension fund remains a client of the firm today, and is among a select group of government, corporate and labor funds that the firm has the privilege of serving.

Greenspace Developments

GreenSpace Developments, LLC ('GSD') is a private real estate investment and asset management firm. The GSD team has managed over \$350 million in assets, financed \$750 million in structured tax exempt real estate, developed over 4,000,000 sq. ft. of mixed use commercial real estate, and developed over 2,000 units of housing. GSD was formed in 2004 to provide real estate services such as project management, development and project financing to tax exempt organizations. In 2008, GSD formed the asset management division to provide direct funding to well capitalized tax exempt entities for the acquisition of green, user occupied real estate projects. GSD's goal is to finance exempt properties in core and urban in-fill markets.

GSD has offices in San Francisco and New York City. The GSD team has participated in real estate projects in Sacramento, San Francisco, Los Angeles and throughout California.

Given that access to a large number of tax exempt issuers of debt is key to the GSD's strategy, GSD partnered with large, national foundations to obtain access to projects by selling a minority stake of the company to strategic philanthropic investors. The majority of GSD is owned by women and minorities. The strategic investors have granted hundreds of millions of dollars to tax exempt entities nationwide and are continuously approached by other tax exempt entities. These relationships provide GSD with a deep understanding of the tax exempt sector and access to proprietary project transaction flow.

GSD has seasoned professionals with skills in the following key areas: 1) structured tax exempt finance, 2) commercial real estate, 3) risk /fund management and 4) the ability to underwrite and understand the operations of tax exempt entities. GSD principals have extensive experience spanning real estate, investing across the spectrum of asset classes in a capital structure, trading, privatizations and acquisitions. The collective backgrounds and experience of these individuals provide GSD with the necessary resources to identify, originate, acquire, finance, develop, manage, and operate real estate assets, while managing risks at an acceptable level.